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ANNUAL REPORT

FOR THE YEAR ENDED FEBRUARY 29

Canadian Cannery Limited



CANADIAN CANNERS LIMITED

Financial Highlights

	1968	1967	1966	1965	1964
Sales	\$53,677	\$52,251	\$50,568	\$47,954	\$43,243
Earnings from Operations (1) . . .	1,404	1,616	2,178	2,086	1,822
Net Earnings	1,351	2,108	2,156	2,112	1,781
Net Earnings Per Share* (2)96	1.50	1.54	1.50	1.27
Dividends Per Share* (3)75	.75	.75	.75	.75
Working Capital	18,079	16,935	16,500	15,887	15,748
Inventories	25,933	24,942	22,107	19,755	17,896
Capital Expenditures . .	915	2,039	2,097	1,333	1,187
Earnings Retained and Used in Business . . .	25,858	24,857	23,101	21,296	19,536
Shareholders' Equity . .	32,154	31,154	29,397	27,593	25,832
Number of Shareholders*	3,347	3,456	3,488	3,649	3,750

Figures in thousands except where designated by *

(1) Earnings before gain or loss on sale of properties.

(2) Class A and Class B Common Shares combined.

(3) Class A only. See note 2 to "Notes to Financial Statements".

Directors' Report to Shareholders and Employees

The Canadian canned fruit and vegetable industry had a difficult year in 1967. The industry encountered increased costs for raw produce, labour, containers, financing and distribution. Severe competition and over-production of certain products made it impossible to recover these increased costs in selling prices. The earnings of Canadian Cannery Limited for the past year reflect this situation.

Earnings from Operations for the year ended February 29, 1968 were \$1,404,260 or \$1.00 per class A and B common share compared with \$1,615,642 or \$1.15 per class A and B common share in the preceding year. Net Earnings (after loss of \$52,923 on sale of properties) of \$1,351,337 or 96¢ per share for the year ended February 29, 1968 compare with Net Earnings (after profit of \$492,003 on sale of properties) of \$2,107,645 or \$1.50 per share in the prior year.

Sales of \$53,676,626 were \$1,425,579 or 2.7% greater than the previous year continuing the annual sales growth of recent years.

The same dividend policy as that followed in recent years was followed during the past year with dividends of 75¢ per share being paid on the class A shares only. Substantially all of the B shares are owned by Del Monte Corporation and no dividends have been paid on these shares since the date of issue October 1, 1956. The class B shares are entitled to dividends accumulating from date of issue at the rate of 75¢ per share per annum and aggregate unpaid dividends on the class B shares amounted to \$7,900,000 at January 1, 1968.

Our year end inventories of \$25,933,006 are \$990,658 higher than a year ago. Individual product inventories are well balanced to meet our customer requirements until the 1968 packing season except for surplus stocks of peeled tomatoes, tomato juice and wax beans. There was an industry over-pack of both peeled tomatoes and tomato juice in 1967. Large quantities of wax beans were packed by Canadian processors in 1967 for export to West Germany but the anticipated sales did not develop because of lower priced product being offered from other European countries. Our surplus stocks of these products will be adjusted in our 1968 packs. If other packers do the same we can expect a more stable market for these products in the next year.

Capital expenditures of \$914,858 were made during the past year to improve the operating effectiveness of our plant operations. Depreciation of \$1,218,703 has been provided on buildings and equipment. Maximum capital cost allowance has been claimed in providing for income taxes which has resulted in a reduction of \$176,000 in income taxes otherwise payable.

During the past year we have been able to maintain share of market for our nationally advertised brands in spite of continued efforts by competition to promote their national and local brands and by distributors to broaden their controlled label share of consumer purchases. This is largely attributable to the aggressive advertising and sales promotion campaigns supporting our AYLMEER, DEL MONTE and DIET DE LUXE brands throughout the year.

In October, 1967 a special committee of Canadian fruit growers and processors presented a brief on the "Peach, Pear and Apricot Processing Industry" to special representatives of the Federal Government. The purpose of the brief was to formally bring to the attention of government authorities the unsatisfactory position of the Canadian fruit processor because of the importation from Australia of canned fruit products at low subsidized prices. It was clearly indicated in the brief that the future of the Canadian fruit processing industry and its utilization of Canadian tree fruit products, labour, containers and supplies is dependent on some action being taken to correct this grossly unfair situation. Under date of April 5 advice was received from the Federal Government that they are prepared to discuss with the special committee of growers and processors certain proposals to improve the situation.

As mentioned previously in this report, the industry encountered increased production costs in 1967, and present indications are that there will be similar increases in 1968. If this industry is to remain a viable enterprise in properly fulfilling its role in the Canadian economy, and competing in world markets, both the trade and consumers must be prepared to accept increased prices. Recent investigations of the food industry have revealed that the percentage of disposable income spent on food has been decreasing over the years. It is not expected that 1968 price increases for canned foods will be out of line with the 1968 increase in consumers' disposable income. These price adjustments must be realized in 1968 for the canned food industry to reverse the recent trend of decreased earnings.

Your directors wish to express their appreciation to our management and employees for their support throughout the past year.

On behalf of the Board of Directors,
J. E. Countryman, L. H. Johnston,
Chairman. President.

Hamilton, Ontario,
May 2, 1968.

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

Consolidated Statement of Financial Position

as at February 29, 1968

	1968	1967
Current Assets		
Cash	\$ 8,344	\$ 13,617
Accounts receivable	6,371,284	5,535,841
Inventories of merchandise, materials and supplies valued at lower of cost or market	25,933,006	24,942,348
Costs allocable to future operations	860,131	773,415
	<u>33,172,765</u>	<u>31,265,221</u>
Current Liabilities		
Bank and other advances	9,823,557	9,480,631
Accounts payable and accruals	4,220,454	4,138,796
Income and other taxes payable	564,530	226,068
Payments due within one year on long-term debt	485,200	485,200
	<u>15,093,741</u>	<u>14,330,695</u>
Working Capital	18,079,024	16,934,526
Fixed Assets (details on opposite page)	15,039,192	15,461,469
Other Assets (details on opposite page)	4,355,364	4,562,551
	<u>37,473,580</u>	<u>36,958,546</u>
Deduct: Long-term debt (details on opposite page)	<u>5,319,402</u>	<u>5,804,602</u>
Shareholders' Equity	<u>\$32,154,178</u>	<u>\$31,153,944</u>
Represented by:		
Capital stock (details on opposite page) (Note 2)	6,296,527	6,296,527
Earnings retained and used in business	25,857,651	24,857,417
Approved on behalf of the Board J. E. Countryman, Director L. H. Johnston, Director	<u>\$32,154,178</u>	<u>\$31,153,944</u>

Notes to Financial Statements

1.—The companies have followed the practice for a number of years of claiming for income tax purposes maximum capital cost allowances which are in excess of depreciation recorded in the accounts. For the year ended February 29, 1968, such claims have resulted in a reduction of \$176,000 in income taxes otherwise payable. The cumulative amount by which income taxes have thus been reduced is approximately \$3,192,000.

2.—The holders of Class A Common Shares are entitled to cumulative cash dividends at the rate of 75¢ per share per annum in priority to any dividends on the Class B Common

Shares and dividends at the rate of 75¢ per share have been paid on the Class A Common Shares up to January 1, 1968. Subject to the prior rights of the Class A Common Shares, the holders of Class B Common Shares are entitled to cash dividends accumulating from the date of issue on October 1, 1956 at the rate of 75¢ per share per annum and the aggregate unpaid dividends on Class B Common Shares amount to \$7,900,000 at January 1, 1968. After the Class B Common Shares have received payment of all accumulated dividends, Class A and B Common Shares share equally in any dividends in excess of 75¢ per share per annum.

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

Details of Items in Accounts

	1968	1967
Fixed Assets		
Land, buildings, plant and equipment, based chiefly on appraised sound values as reported by Canadian Appraisal Company, Limited, in 1923, plus subsequent additions at cost	\$33,556,289	\$33,138,147
Less — Accumulated depreciation	<u>18,517,097</u>	<u>17,676,678</u>
	<u>\$15,039,192</u>	<u>\$15,461,469</u>
Other Assets		
Mortgages and other long-term receivables	\$ 1,112,744	\$ 1,319,931
Intangibles — brand names, trade marks, patents, processes, goodwill, etc.	<u>3,242,620</u>	<u>3,242,620</u>
	<u>\$ 4,355,364</u>	<u>\$ 4,562,551</u>
Long-Term Debt (exclusive of payments due within one year)		
Sinking fund debentures:		
3¾% maturing January 15, 1970	\$ 1,675,000	\$ 1,850,000
5% maturing June 15, 1973	2,320,000	2,460,000
Mortgage and notes of Subsidiary Company payable by installments to 1977	<u>1,324,402</u>	<u>1,494,602</u>
	<u>\$ 5,319,402</u>	<u>\$ 5,804,602</u>
Capital Stock		
Class A common shares without nominal or par value		
Authorized — 1,000,000		
Issued — 468,137	\$ 2,098,842	\$ 2,098,842
Class B common shares without nominal or par value		
Authorized — 2,000,000		
Issued — 936,274	<u>4,197,685</u>	<u>4,197,685</u>
	<u>\$ 6,296,527</u>	<u>\$ 6,296,527</u>

Auditors' Report to the Shareholders of Canadian Cannery Limited

We have examined the consolidated statement of financial position of Canadian Cannery Limited and its subsidiary companies as at February 29, 1968 and the consolidated statements of earnings and earnings retained and used in business and source and use of funds for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these consolidated statements present fairly the financial position of the companies as at February 29, 1968 and the results of their operations and the source and use of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, April 19, 1968.

Price Waterhouse & Co.,
Chartered Accountants.

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings

and Earnings Retained and Used in Business

for the year ended February 29, 1968

	1968	1967
Sales and operating revenues	\$53,676,626	\$52,251,047
Costs and Expenses		
Costs and expenses, excluding items listed below	49,673,618	48,380,887
Depreciation	1,218,703	1,171,697
Interest on long-term debt	210,619	214,155
Directors' fees and salaries of officer directors	94,426	93,666
Income taxes (Note 1)	1,075,000	775,000
	<u>52,272,366</u>	<u>50,635,405</u>
Earnings from operations	1,404,260	1,615,642
Gain (Loss) on sale of properties	(52,923)	492,003
Net earnings for the year	1,351,337	2,107,645
Earnings retained, beginning of year	24,857,417	23,100,875
	26,208,754	25,208,520
Dividends on Class A common shares	351,103	351,103
Earnings retained, end of year	<u>\$25,857,651</u>	<u>\$24,857,417</u>

Consolidated Statement of Source and Use of Funds

for the year ended February 29, 1968

Source of Funds

Net earnings for the year	\$ 1,351,337	
Depreciation — not requiring outlay of funds	1,218,703	
Disposal of fixed assets	118,432	
Decrease in mortgages and long-term receivables	<u>207,187</u>	\$ 2,895,659

Use of Funds

Investment in fixed assets	914,858	
Dividends on Class A shares	351,103	
Debentures redeemed	315,000	
Decrease in mortgage and other long-term notes payable	<u>170,200</u>	1,751,161

Increase in Working Capital		\$ 1,144,498
Working Capital at beginning of year		<u>16,934,526</u>
Working Capital at end of year		<u>\$18,079,024</u>

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

DIRECTORS

Wm. Herbert Carr	<i>San Francisco, California</i>
J. E. Countryman	<i>San Francisco, California</i>
L. M. Crandall	<i>Pembroke, Ontario</i>
W. I. Drynan	<i>Hamilton, Ontario</i>
A. W. Eames, Jr.	<i>San Francisco, California</i>
G. Arnold Hart, M.B.E.	<i>Montreal, Quebec</i>
L. H. Johnston, F.C.A.	<i>Hamilton, Ontario</i>
R. M. Mapp	<i>Hamilton, Ontario</i>
A. L. Nelson	<i>Hamilton, Ontario</i>
Leonard A. Philip	<i>Toronto, Ontario</i>
W. S. Sewell, Q.C.	<i>Toronto, Ontario</i>
R. B. Yerby, Jr.	<i>San Francisco, California</i>

OFFICERS

J. E. Countryman	<i>Chairman of the Board</i>
L. H. Johnston	<i>President and Chief Executive Officer</i>
R. M. Mapp	<i>Vice-President — Marketing</i>
A. L. Nelson	<i>Vice-President — Production</i>
T. V. McGinn	<i>Secretary-Treasurer</i>
R. Fox	<i>Controller</i>
A. L. Croce	<i>Assistant Secretary</i>
D. W. Munn	<i>Assistant Secretary</i>

HEAD OFFICE

44 Hughson Street South, Hamilton, Ontario

SUBSIDIARY COMPANIES

Aylmer Foods Warehousing Limited
Boese Foods Limited
Canners Machinery Limited
The Pyramid Canners Limited
Wagstaffe Limited
Walmer Transport Company Limited

REGISTRAR AND TRANSFER AGENTS

Royal Trust Company, Toronto and Montreal

TRUSTEE FOR DEBENTURE HOLDERS

Canada Permanent Trust Company

AUDITORS

Price Waterhouse & Co.

ANNUAL MEETING

June 14, 1968, 2:15 p.m. (E.D.S.T.),
Sheraton-Connaught Hotel, (Mezzanine Floor), Hamilton, Ontario

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THE GLOBE & MAIL,
FINANCIAL EDITOR,
TORONTO, ONTARIO.

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CANADIAN CANNERS LIMITED
HAMILTON — CANADA

INTERIM

REPORT TO
SHAREHOLDERS

FOR THE SIX MONTHS ENDED

AUGUST 31, 1968

CANADIAN CANNERS LIMITE

TO OUR SHAREHOLDERS

This first interim report to shareholders summarizes the unaudited consolidated financial results of your Company for the six month period ended August 31, 1968, compared with the six month period ended August 31, 1967.

Net sales for the six month period at \$23,260,437 were fractionally lower than for the same period last year. Net earnings of \$352,500 compare with \$588,338 last year. Earnings per class A and class B common share were 25¢ per share in 1968 compared to 42¢ per share in 1967. The major reason for the decreased earnings was that the Company has been unable to increase selling prices to compensate for increases in the cost of raw produce, labour and other supplies and services. In addition, the Company sustained losses from two major strikes in June and July at our main distribution centre and at our jam manufacturing plant.

During the six months ended August 31, 1968, two quarterly dividends at the rate of 18-3/4¢ were paid on the class A common shares. Class A dividends at this rate have been paid quarterly since January, 1957.

The Board of Directors, at a meeting held October 17, 1968, declared a quarterly dividend, payable January 2, 1969, of 10¢ a share on the class A common shares. This action in reducing the dividend was taken because of decreased earnings in the first six months of the current year.

Your directors have approved a change in the Company's fiscal year to the last day of May rather than the last day of February. The shareholders will be asked to confirm this change at the next Annual Meeting. Over the past years, the end of February was considered to be an appropriate year end since production activities and inventories were at a relatively low point on that date. However, production and marketing patterns have changed considerably in recent years and the end of May has now been determined to be a more logical time to report on the results of our production, marketing and financing activities.

J. E. Countryman,
Chairman of the Board.

L. H. Johnston,
President.

Hamilton, Ontario.
October 17, 1968.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

For the Six Months Ended August 31

	<u>1968</u>	<u>1967</u>
Sales and operating revenues	\$23,260,437	\$23,579,429
Costs and expenses		
Costs and expenses excluding items below	21,863,305	21,815,551
Depreciation	553,390	472,203
Interest on long-term debt	101,242	107,337
Income taxes (see note)	390,000	596,000
	<u>22,907,937</u>	<u>22,991,091</u>
Net earnings for the period	<u>\$ 352,500</u>	<u>\$ 588,338</u>

NOTE:

The income taxes have been restated for the period ended August 31, 1967 to reflect the change in accounting practice to the deferred tax method.

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the Six Months Ended August 31

	1968	1967
SOURCE OF FUNDS		
Earnings for the period	\$ 352,500	\$ 588,338
Charges not requiring outlay of funds		
- Depreciation	553,390	472,203
- Deferred income taxes	(76,663)	91,675
Funds from operations	829,227	1,152,216
Disposal of fixed assets	49,768	20,548
Mortgages and long-term receivables	55,175	44,617
	<u>\$ 934,170</u>	<u>\$1,217,381</u>
USE OF FUNDS		
Investment in fixed assets	\$ 558,473	\$ 593,142
Dividends declared on Class A shares	263,327	263,327
Debentures redeemed	140,000	140,000
Mortgages and long-term notes payable	170,200	170,200
	<u>\$1,132,000</u>	<u>\$1,166,669</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (197,830)</u>	<u>\$ 50,712</u>